

Instructions for Idaho Form 402

General Information

If you are a nonresident transacting business in Idaho and another state or country, your entire business income is subject to Idaho apportionment. The elements of the apportionment formula are the property, sales, and payroll factors of your trade or business.

Property Factor

The property factor is a fraction. The numerator is the average value of real and tangible personal property owned or rented and used in Idaho during the tax year to produce business income. The denominator is the average value of all the real and tangible personal property you owned or rented and used during the tax year to produce business income. Property used in the production of nonbusiness income is excluded from the factor.

Property is included in the factor if it is actually used or capable of being used during the tax year in the regular course of the trade or business of the taxpayer.

For example, a plant temporarily idle, work-in-process, and raw material reserves not currently being processed are included in the property factor. Property under construction during the tax year, except inventorable goods in process, is excluded from the property factor until the property is used or capable of being used in the regular course of business.

Property you own is valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to any federal adjustments) when it was acquired. Adjustments must be made for subsequent capital additions or improvements, special deductions or partial dispositions because of sale, exchange, abandonment, etc. Depreciation does not reduce original cost.

The average value of the property you own is computed by averaging the values at the beginning and end of the tax year. The Idaho State Tax Commission may require or allow the averaging of monthly values to properly reflect the average values.

Property rented is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rents paid for the property, less the aggregate annual subrental rates paid by subtenants. Subrents are not deducted if they are business income.

Sales Factor

The sales factor is double weighted for all taxpayers except electrical and telephone utilities. Electrical and telephone utilities use a single-weighted sales factor.

The sales factor is a fraction. The numerator is the gross receipts derived during the year from transactions and activities attributable to Idaho in the regular course of your trade or business. The denominator is the total gross receipts derived during the tax year from transactions and activities everywhere in the regular course of your trade or business. Receipts derived from the production of nonbusiness income are excluded from the sales factor.

Sales means all gross receipts derived from transactions and activities in the regular course of your trade or business. Gross receipts means gross sales, less returns and allowances. Gross receipts from sales of tangible personal property are assigned to Idaho if:

- property is delivered or shipped to a purchaser in Idaho regardless of F.O.B. point or other conditions of sales; or
- property is shipped from an office, store, warehouse, factory, or other place of storage in Idaho and the taxpayer is not taxable in the state of the purchaser (throwback sales) or the purchaser is the United States Government.

Sales also include gross receipts from services and all other gross receipts such as interest, dividends, rents, royalties, gross receipts from the sale of property, and other income you derive in the regular course of your business. If gross receipts do not fairly represent the extent of your business activity in Idaho, you may petition, or may be required, to use another method to obtain an equitable result. Income from services is attributable to Idaho to the extent the services are performed in Idaho.

Payroll Factor

The payroll factor is a fraction. The numerator is the compensation paid in Idaho during the tax year to produce business income. The denominator is the total compensation paid during the tax year to produce business income. Compensation connected with the production of nonbusiness income is excluded from the payroll factor.

The total amount paid to employees is determined on the basis of the taxpayer's accounting method. Under the accrual method, all compensation properly accrued is deemed to have been paid.

If you are required to report the compensation under the cash method for unemployment compensation purposes, compensation paid to employees may be included in the payroll factor using the cash method.

Compensation means wages, salaries, commissions and any other form of payment to employees for personal services. Payments made to an independent contractor, or any person not properly classifiable as an employee, are excluded.

Compensation is paid in Idaho if any one of the following tests are met:

- the individual's service is performed entirely within Idaho; or
- the individual's service is performed both in and outside Idaho but the service performed outside Idaho is incidental to the individual's service in Idaho, or
- some of the service is performed in Idaho and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in Idaho; or
- some of the service is performed in Idaho and the base of operations, or the place from which the service is directed or controlled, is not in any state in which some part of the service is performed, but the individual's residence is in Idaho.

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Modified Factors for Certain Industries

Idaho has adopted the Multistate Tax Commission (MTC) regulations for the following special industries. Examples of the computations of these factors are found in the applicable MTC regulations. You can find the MTC regulations on the Internet at <http://www.mtc.gov>.

Carriers of Freight and Passengers

If you are in the business of transporting passengers, freight or mail by motor carrier, your apportionment factor should reflect the movement of your transportation equipment and personnel. This is done by including the transportation revenue, property and payroll in the Idaho numerators based on the percentage of miles traveled in Idaho to miles traveled everywhere.

Other revenue, fixed property, and compensation of employees assigned to fixed locations are included in the factors based on the general apportionment rules.

Contractors

You must use the same long-term contract accounting method for Idaho reporting purposes that you used for federal reporting purposes.

If the percentage of completion method is used, the following special rules apply in addition to the general property, payroll, and sales factor rules.

The property factor denominator includes the average value of the taxpayer's cost of construction in progress (including materials and labor) to the extent the costs exceed progress billings. The portion of this amount attributable to construction projects in Idaho is included in the Idaho numerator. Do not include any value in the property factors for your equity in the projects if progress billings exceed construction costs.

The sales factor includes only the portion of the gross contract price which corresponds to the percentage of the entire contract which was completed at the end of the tax year. For example, if the project was 30% complete at the end of the tax year, 30% of the bid price should be included in the gross receipts. Gross receipts from a construction project are attributable to Idaho if the construction is located in Idaho. Gross receipts from a construction project located partially in Idaho are included in the numerator based on ratio of construction costs for the project in Idaho for the tax year to the total of construction costs for that project for the tax year.

Compensation paid for work on a particular construction project is included in the payroll factor even though capitalized into the cost of construction. Compensation is attributable to the state where most of the employee's service is performed, regardless of where reported for unemployment tax purposes.

Specific Instructions

Instructions are for lines not fully explained on the form.

Property

Line 8. Enter the cost of property or equipment under construction if included in the totals on the lines above. Do not include inventoriable goods in process.

Line 10. To compute total average owned property, add beginning and end of the year amounts from the total columns on line 9, and divide by two. To compute Idaho average owned property, add beginning and end of the year amounts from the Idaho columns on line 9, and divide by two.

Line 11. Multiply your total and Idaho net annual rents by 8, and enter here.

Line 14. Divide Idaho owned and rented property, line 13, by total owned and rented property, line 12. Compute the percentage to four decimal places.

Sales

Lines 16a and b. Enter the amounts from line 15 that were delivered or shipped to Idaho purchasers.

Lines 17a and b. Enter the amounts from line 15 that were throwback sales to Idaho. A sale made in a state that has no jurisdiction to tax the seller is a throwback sale.

Line 27. Divide Idaho gross receipts, line 26, by total gross receipts, line 25. Compute the percentage to four decimal places. Electrical and telephone utilities. This is your single-weighted sales factor. Go to line 29.

Line 28. For all taxpayers other than electrical and telephone utilities, multiply the amount on line 27 by 2. This is your double-weighted sales factor.

Payroll

Line 35. Divide Idaho wages and salaries, line 34, by total wages and salaries, line 33. Compute the percentage to four decimal places.

Total Percentage

Line 36. For all taxpayers other than electrical and telephone utilities, add the percentages on lines 14, 28, and 35. For electrical and telephone utilities, add the percentages on lines 14, 27, and 35.

Idaho Apportionment Factor

Line 37.

- For all taxpayers other than electrical and telephone utilities, divide the total percentage on line 36 by 4.
- For electrical and telephone utilities, divide the total percentage on line 36 by 3.
- If any of the factors do not apply to your business, divide the total on line 36 by the number of factors used. For example, if your business has no employees anywhere, your factor is reduced by one.

Multiply the apportionment factor by the net income/loss of multi-state activities reported on your Schedule C, E and F. Enter the resulting amount on the applicable lines of Idaho Form 43.